

**Budget Press Conference
Thursday, June 7, 2007
Governor's Remarks**

It is my responsibility as Governor, on behalf of every resident of this state, to ensure that Rhode Island is a place this year and in future years where you, your children, and your grandchildren will stay and prosper.

My goal has been to put the state on a path to prosperity! To do that, we must be seen as a lower tax, business friendly, well-run state. In the last few years, we have made major progress on the first two goals. But the third needs dramatic improvement.

Being well run means having a government that delivers quality service at a price our taxpayers can afford, and which is sustainable over the long-term. That is not the case today.

As you know, I submitted a balanced budget in January which closed a projected deficit of \$360 million in the two fiscal years of '07 and '08.

While many of the choices in that budget were difficult, they were sufficient to resolve the state's short-term fiscal challenges. My budget also preserved the important tax reforms we have begun in recent years. Thus our long-term goal of being a business-friendly state was maintained.

Unfortunately, the May Revenue Estimating Conference recently determined that the state is now confronted with an additional \$92.4 million shortfall in '08.

As a result, we will need to enact further spending reductions above and beyond those currently in the budget.

We must resist the temptation to use tax increases or one-time gimmicks to resolve this problem.

As many of you know, I have long argued that Rhode Island's tax burden is too high. Currently, Rhode Island's combined state and local tax burden is the 7th highest in the nation.

Over the last few years, I have worked with the General Assembly to reduce taxes in a number of important areas. We have reduced the income tax, the motor vehicle tax, the inventory tax and the capital gains tax. And we have also enacted new restrictions on property tax increases.

Reducing our tax burden will ensure continued economic growth, and keep Rhode Island affordable for our children.

This is not the time to backslide on those important reforms. We cannot tax our way to budget health. Unfortunately, too many people seem to think that state government is a giant ATM. To me, that ATM is doling out "Average Taxpayer Money."

We also cannot rely on one-time fixes to solve the state's long-term budget problems. One time band-aids will not stop the hemorrhaging and will only exacerbate next year's problem. It is time to take a long-term view and enact major reforms.

The budget plan I submitted in January included the use of \$160 million from the sale of tobacco bonds, most of which would have been used to fund capital projects and to build transportation infrastructure.

It now appears that we could raise up to \$195 million from the sale of such tobacco bonds. It would be a grave mistake to use this additional money to plug the operating deficit in our budget. Next year, that money will be gone, and we'll still have the same expenses. It would be like a homeowner who maxes-out his or her credit card to pay their mortgage. Next month, the mortgage payment will come due again, and the money's gone!

Instead, these additional funds should be invested wisely in projects that will provide long term benefits, such as paying off state debt, funding pension or retiree health costs, or paying for capital projects.

Additionally, it is my understanding that the House and Senate Finance Committees are considering taking the \$67.5 million in tobacco bond proceeds that I had earmarked for transportation projects, and also using it to plug the deficit. Thus, they are essentially using all the tobacco money to eliminate the deficit. This is ill-conceived, short-term thinking at its worst.

Not only does it make next year's problem worse, but the state will lose another \$270 million in federal matching money which will be used to improve our roads and repair our bridges. This is terrible budgeting and planning.

I fully appreciate that we must still resolve the additional projected shortfall of some \$100 million. Doing so will require difficult, painful decisions. And these decisions should be designed not only to resolve the current crisis, but to head off future problems by putting the budget on a sustainable path.

To do this, we must focus on where our costs are greatest, where they have been rising at the highest rates, or where they are out of line with similar costs in the private sector or in neighboring states.

In particular, we must focus on the state's inordinately high personnel costs.

Those costs have nearly doubled in the last ten years, increasing from \$900 million in FY 1998 to a projected \$1.6 billion in FY 2008. Currently, payroll and benefit costs make up 22 percent of the state budget, and this rate of growth is ultimately unsustainable.

Why are the state's personnel costs so high? Because Rhode Island's benefit structure for state employees is shockingly generous.

Recently, there has been a lot of discussion about the 22.5 percent markup we pay certain contract staffers. But the truth is that this pales in comparison to the benefit overhead we pay for state employees.

The chart to my right itemizes the total cost of the average state employee, projected at \$54,890 per year. The chart details how much the state pays to fund that employee's pension, health care, FICA, vacation time, sick time, paid holidays and other fringe benefit costs. The total benefit cost for this employee will be \$51,186, or 88 percent on top of salary. The total compensation is \$109,334.

By comparison, the average benefit overhead being paid by private companies in New England is 29 percent. That's 59 percent lower than what the state is paying!

In other words, the average state employee is receiving almost \$34,307 more in benefits than those in the private sector. This does not take into account the difference in the length of the work week. If all state employees were receiving the same benefits as the average private sector company, the savings to taxpayers would be close to half a billion dollars.

This is not fair to average Rhode Island taxpayers. Further, we cannot afford to be that out of line with what is being paid in the real world.

To begin the process of reducing personnel costs, I am today announcing three initiatives.

First, I propose to undertake a comprehensive workforce reduction of 1,000 state employees. We estimate that reducing the state workforce by this amount will save taxpayers \$26 million in general revenues in the coming fiscal year, and another \$40 million in FY 2009 and every year after. Under union contracts and state law, the executive branch can undertake this action. This will be done deliberately, and will include normal turnover and retirement, as well as layoffs.

Second, my administration will renegotiate the design of the health care plan for state employees. Currently, state employees enjoy extraordinarily low co-pays for doctors' visits, emergency room visits and prescription drugs. I propose to increase those co-pays to match those paid by employees in the private sector.

These changes will save \$12 million next year and \$13 million each year after that.

Third, we will put out to competitive bid every state service that could possibly be performed more efficiently by the private sector. We expect this effort will save an additional \$15 million in FY 2008. Bringing competition to state government services will ultimately be the key to building a sustainable budget for years to come.

The purpose of this initiative is simple: to provide the same or better services to Rhode Island citizens at a lower cost for Rhode Island taxpayers. Because benefit levels are so much lower in the private sector, marshalling private companies to provide these services will significantly reduce personnel overhead costs. Other states have done it. We can too!

I will form a Competition in Government Task Force to undertake a comprehensive review of all possibilities. The Rhode Island Public Expenditure Council has agreed to assist in this effort, and we will bring in other outside help.

We estimate that the Fiscal Year '08 general revenue savings from these three initiatives will approximate \$55 million, and that '09 savings will exceed \$70 million per year.

Finally, to close a large part of the remaining gap in '08, I will ask the General Assembly to pass legislation to freeze all state wages at their current levels. Over the last three years, state employees have received 11 percent in wage increases. Freezing the wages at current levels will suspend the contract calling for an increase of approximately \$32 million next year.

I fully recognize that I am asking the General Assembly to override existing contracts. Unfortunately, since those contracts were first negotiated, the state's financial problems have grown much worse. At a time when we are struggling to deal with the largest budget crisis in recent memory, such action by the General Assembly is completely appropriate.

The actions I have taken responsibility for will resolve 60 percent of the problem. I need the help of the General Assembly to complete the plan.

I am fully aware that I am placing the burden of resolving our state's financial future on the shoulders of our employees. But my responsibility is to the average Rhode Island taxpaying families who put me here. I must act on behalf of all our citizens, and we must fix this now for the sake of our children and grandchildren's futures.

This budget crisis is an opportunity to make the types of fundamental reforms that will enable us to avoid similar fiscal emergencies in the future. If we don't, we will find ourselves dealing with a worse problem next year.

This is not the time to take the "EASY" way out! The two gentlemen behind me and in front of me did not take the easy way.

They chose to fight for our freedom and independence, to provide a more prosperous future for us.

It's time for us to do the same!!